

Message Text

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ACTION NEA-06

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R 020955Z MAR 75

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 437

AMEMBASSY JIDDA

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY CARACAS

AMEMBASSY DHAHREN

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY TRIPOLI

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BEIRUT PASS BAGHDAD

E. O. 11652: GDS

TAGS: ENGR, IR

SUBJ: NIOC/CONSORTIUM RELATIONS

REF: A) TEHRAN 0290, B) TEHRAN 0240, C) TEHRAN 0089

1. SUMMARY: CONSORTIUM REP ROGER VARIAN REVIEWED WITH EMBOFF
CURRENT DISPUTE BETWEEN GOI AND MEMBERS ON INTERPRETATION OF
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DECEMBER OPEC DECISION. TWO SIDES ARE STILL ON COLLISION COURSE;

MEMBERS HAVE ASKED FOR ONE MORE MEETING WITH NIOC AND AMOUZEGAR BEFORE MARCH 15 (WHEN PAYMENTS FOR OIL LIFTED IN JANUARY ARE DUE). WHETHER SUCH A MEETING WILL BE HELD IS NOT YET CLEAR. IF ISSUE IS NOT RESOLVED, MEMBERS MAY PAY ONLY WHAT THEY FEEL THEY OWE--ABOUT 4(FOUR) CENTS PER BARREL LESS THAN WHAT NIOC IS DEMANDING. NEITHER EMBASSY NOR MEMBERS CERTAIN WHAT GOI REACTION TO "UNDERPAYMENT" MAY BE. VARIAN FEELS COMPANIES POSITION IS "TACTICALLY STRONG." VARIAN AND MEMBERS HAVE ALSO CONTINUED DISCUSSING "PAYMENTS MECHANISM" WITH NIOC: IF COMPANIES PAY "SINGLE PRICE" TO NIOC, THEY WILL LOSE TAX CREDITS. IF THEY PAY IN FORM OF TAXES PLUS ROYALTIES PLUS BALANCING MARGIN, U.S. AND BRITISH TAX CREDITS WILL BE PRESERVED. GOI HANDLING OF THIS ISSUE SUGGESTS BUREAUCRATIC TENSIONS BETWEEN AMOUZEGAR AND NIOC. ACTION REQUESTED: SAUDI INTERPRETATION OF DECEMBER OPEC DECISION COULD BE IMPORTANT DETERMINANT HERE. WOULD APPRECIATE ANY READING JIDDA CAN GET RE YAMAMI'S THINKING ON THIS ISSUE. END SUMMARY.

2. IN CONVERSATION WITH EMBOFF FEBRUARY 26, CONSORTIUM MEMBERS' REPRESENTATIVE ROGER VARIAN REVIEWED EVENTS BEGINNING JANUARY 6, 1975, WHEN NIOC NOTIFIED HIM MEMBERS WOULD HAVE TO PAY \$10.328 PLUS PRODUCTION COST FOR IRANIAN LIGHT CRUDE AND \$10.105 PLUS COST FOR IRANIAN HEAVY (REF C), WITH PRODUCTION COST ESTIMATED AT 16.2 CENTS PER BARREL FOR 1975, THIS GIVES COST TO MEMBERS OF \$10.49 FOR LIGHT CRUDE AND \$10.267 FOR HEAVY. AFTER THIS NOTIFICATION VARIAN ARRANGED JANUARY 11 MEETING BETWEEN MEMBERS AND AMOUZEGAR/NIOC. ON JANUARY 9, NIOC SUMMONED VARIAN TO HAND HIM FOLLOWING LETTER (DATED JANUARY 8 (SEE REF B) FROM NIOC CHAIRMAN DR. EGHBAL (SOMEWHAT ABBREVIATED): "WITH REFERENCE TO OPEC COMMUNIQUE OF 13 DECEMBER 1974, ISSUED IN VIENNA AT END OF XLII MEETING OF THE OPEC CONFERENCE OUTLINING DECISION TAKEN BY THE CONFERENCE EFFECTIVE FROM JANUARY 1, 1975, THROUGH SEPTEMBER 30, 1975, WE ARE WRITING TO ADVISE YOU THE FOLLOWING: 'PRICE PAYABLE BY TRADING COMPANIES TO NIOC FOR CRUDE OIL PURCHASED BY THEM FROM ABOVE EFFECTIVE DATE SHALL BE THE SUM OF (A) A SINGLE PRICE OF US \$10.328 PER BARREL FOB KHARG AND US \$10.31 FOB MAHSHAHR FOR IRANIAN LIGHT CRUDE OIL AND US \$10.105 PER BARREL FOB KHARG AND US \$10.086 FOB MAHSHAHR FOR IRANIAN HEAVY, PLUS (B) THE ACTUAL PER BARREL PRODUCTION COST. ABOVE PRICES WILL BE SUBJECT TO GRAVITY ADJUSTMENT OF 0.15 US CENTS PER BARREL FOR EACH 0.1 DEGREE API. IN VIEW OF RECENT DEVELOPMENTS AND IN PARTICULAR THE ABOVE CHANGES IN THE PRICING SYSTEM, CERTAIN REVISIONS AND CHANGES TO THE PROVISIONS OF THE 1973 SALE AND PURCHASE AGREEMENT HAVE BECOME CONFIDENTIAL

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NECESSARY, WHICH SHALL BE IMPLEMENTED IN DUE COURSE AFTER CONSULTATION WITH CONSORTIUM MEMBER COMPANIES."

3. VARIAN ELABORATED AS FOLLOWS ON POINTS DISCUSSED IN JANUARY 11 MEETING BETWEEN MEMBERS AND AMOUZEGAR/NIOC (REPORTED REF A). HE NOTED THAT AMOUZEGAR, IN HIS REMARKS ON THE INSUFFICIENCY OF THE 22 CENT COMPANY MARGIN, SAID 22 CENT MARGIN REPRESENTED TACTIC ON PART OF SAG DESIGNED TO BRING ARAMCO PARTNERS TO THEIR KNEES AND

FORCE THEM TO NEGOTIATE 100 PERCENT PARTICIPATION PACT HE SAID
GOI THOUGH COMPANIES SHOULD HAVE MORE AND RECALLED THAT SHAH HAD
SPOKEN OF A 50 CENT MARGIN. AMOUZEGAR SUGGESTED, AS REPORTED REF
A, THAT COMPANIES MIGHT INCREASE MARGIN BY SELLING ABOVE 93 PER-
CENT OF THE ABU DHABI FORMULA POSTING. HE THEN TURNED TO NIOC
INTERNATIONAL MARKETING CHIEF IZADI AND ASKED WHAT NIOC'S PRICES
WERE. IZADI REPLIED "\$10.72 FOR LIGHT AND \$10.50 FOR HEAVY."
AMOUZEGAR NOTED THESE PRICES WOULD GIVE THE COMPANIES 23 CENT MAR-
GIN. MEMBERS REPLIED THAT AS 93 PERCENT FORMULA WAS CLEARLY
ESTABLISHED ELSEWHERE, CONSUMER GOVERNMENTS WOULD NOT BELIEVE
COMPANIES IF LATTER TRIED TO TELL THEM IRANIAN CRUDE COST MORE.
MEMBERS POINTED OUT THAT IRAN WAS, IN EFFECT, DEMANDING A HIGHER
LEVEL OF PAYMENT THAN OTHERS AND REFERRED TO MFN PRINCIPLE. MFN,
REPLIED AMOUZEGAR, PROTECTS US, NOT YOU. A FEW DAYS AFTER MEET-
ING, AMOUZEGAR TELEPHONED VARIAN TO INFORM HIM THAT "NIOC PRICES
ARE \$10.71 FOR LIGHT CRUDE AND \$10.49 FOR HEAVY" AND TO EMPHASIZE
THAT MEMBERS SHOULD NOT FEEL BOUND BY 93 PERCENT FORMULA. "IF
CONSUMERS DON'S BELIEVE YOU," HE SAID, "SEND THEM TO ME AND I'LL
TELL THEM WHAT OUR PRICES ARE." ANOTHER POINT MENTIONED IN JAN 11
MEETING WAS PAYMENT MECHANISM--QUESTION OF WHETHER MEMBERS WILL
PAY "SINGLE PRICE" OR WILL CONTINUE PAYING TAXES, ROYALTIES, AND
BALANCING MARGIN. AMOUZEGAR INDICATED HE STILL WILLING TO ACCEPT
PAYMENT MECHANISM THAT PRESERVES COMPANIES' TAX CREDITS.

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ACTION NEA-06

INFO OCT-01 ISO-00 SS-14 PM-03 SP-02 EB-03 L-01 INR-05

ARA-06 EUR-08 AF-04 IGA-01 /054 W

----- 118649

R 020955Z MAR 75

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4. ON JAN 25, MEMBERS WROTE REQUESTING A FURTHER MEETING, BEFORE MARCH 15, WITH AMOUZEGAR AND NIOC "SINCE IN OUR JAN 8 MEETING NO CONFIDENTIAL

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CONSENSUS WAS REACHED." MEMBERS MADE CLEAR THAT THEY VIEWED GOI INTERPRETATION OF OPEC DECISION AS VERY SERIOUS MATTER.

5. ON MORNING OF FEB 16, VARIAN MET WITH AMOUZEGAR TO DISCUSS ISSUES OF PRICE AND PAYMENTS MECHANISM. AMOUZEGAR TOOK STRONG EXCEPTION TO MEMBERS' REFERENCE IN JAN 25 LETTER TO LACK OF CONSENSUS. "THERE IS NO QUESTION," HE SAID, "OF CONSENSUS: WE DECIDE AND YOU ACCEPT." AMOUZEGAR ADDED THAT HE TRUSTED THERE WOULD BE NO "REBELLION" BY THE COMPANIES AND SAID "WE'RE WRITING YOU A LETTER ON THE CONSENSUS MATTER." REGARDING PAYMENT MECHANISM, AMOUZEGAR SAID "SUIT YOURSELVES" AND SUGGESTED MEMBERS MIGHT PAY JUST AS THEY HAD FOR LAST NOVEMBER AND DECEMBER.

6. ON THE AFTERNOON OF FEB 16, VARIAN SAW DR PARVIZ MINA OF NIOC ABOUT THE SAME ISSUES. MINA HANDED HIM FOLLOWING LETTER, DATED 15 FEBRUARY: "WITH REFERENCE TO YOUR LETTER DATED JAN 25, I WOULD LIKE TO DRAW YOUR ATTENTION TO THE FACT THAT SINCE THE LEVEL OF CRUDE OIL PRICES ARE DETERMINED BY THE GOVERNMENTS CONCERNED ON THE BASIS OF MARKER CRUDE PRICES IN THE PERSIAN GULF AS ESTABLISHED BY OPEC, YOUR REFERENCE TO LACK OF CONSENSUS IN THE MEETING OF JANUARY 11 DOES NOT SEEM TO BE RELEVANT. AS REGARDS POSSIBLE DEVELOPMENTS ELSEWHERE IN THE PERSIAN GULF, TO WHICH YOU REFER IN THE LAST PARAGRAPH OF YOUR LETTER, I WOULD LIKE TO POINT OUT THAT, SO FAR, WE ARE NOT AWARE OF ANY DEVELOPMENTS WHICH MAY HAVE ANY POSSIBLE BEARING ON THE CRUDE PRICES AS DETERMINED BY US ON THE

ABOVE BASIS. IT IS, THEREFORE, NECESSARY TO REITERATE WHAT WE HAVE
ALREADY COMMUNICATED TO MEMBER COMPANIES REPRESENTATIVES IN OUR
MEETING OF JAN 11TH, AND TO RESTATE OUR POSITION THAT THE TRADING
COMPANIES ARE EXPECTED TO COMPLY WITH THE CONTENTS OF OUR LETTER
...DATED JAN 8, 1975, AND TO MAKE THEIR PAYMENTS ACCORDINGLY."
SIGNED: "DR M EGHBAL, CHAIRMAN OF THE BOARD AND GENERAL MANAGING
DIRECTOR."

7. WHEN VARIAN BROUGHT UP SUBJECT OF PAYMENT MECHANISM, MINA
REPLIED "I DON'T KNOW WHAT YOUR'RE TALKING ABOUT. OUR LETTER OF
JAN 8 IS CLEAR: FOR EACH BARREL YOU PAY NIOC A SINGLE PRICE."
VARIAN NOTED THAT HE HAD SPOKEN THAT MORNING TO THE MINISTER, WHO
HAD ASSURED HIM THAT THE MECHANISM WAS UP TO THE COMPANIES. MINA
BECAME ANGRY. VARIAN THEN ATTEMPTED TO MOLLIFY MINA SOMEWHAT AND
MINA IN THE END SAID "ALL RIGHT, WRITE US A LETTER ABOUT THE
MECHANISM." THE FOLLOWING DAY VARIAN RECEIVED A LETTER FROM DE
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EGHBAL WHICH QUOTED AN ARTICLE OF NIOC'S NEW STATUTES TO EFFECT
THAT NIOC IS THE "SOLE GOVERNMENT AUTHORITY" ON PETROLEUM MATTERS
AND ASKED MEMBERS HENCEFORTH TO CONTACT NO ONE BUT NIOC OFFICIALS
ON PETROLEUM MATTERS.

8. A FEW DAYS AGO VARIAN SENT A REPLY TO NIOC'S LETTER OF FEB 15
STATING THAT MEMBERS WERE CONCERNED THAT PAYMENTS TO IRAN NOT BE
MADE ON BASIS INCONSISTENT WITH PAYMENTS TO OTHER GULF NATIONS.
MINA HAS SINCE REPLIED VERBALLY THAT IF MEMBERS THINK THERE ARE
"INCONSISTENCIES" THEY SHOULD CITE CHAPTER AND VERSE. VARIAN CITED
KUWAIT. MINA REPLIED "THEIR PRODUCTION COST IS LOWER THAN THAT OF
MARKER CRUDE, SO IT SUITS THEM TO SET PRICES AS THEY DID. THEY
GET A FEW CENTS MORE IN GOVERNMENT TAKE." MINA HAS CLAIMED THAT
SAUDIS ARE APPLYING DECISION IN SAME WAY AS IRAN, WITH ESTIMATED
1975 PRODUCTION COSTS EVEN HIGHER THAN IRAN'S (THUS IRANIAN
CRUDE SUPPOSEDLY WOULD BECOME SOMEWHAT CHEAPER RELATIVE TO SAUDI
CRUDE.) ON THIS POINT NEITHER EMBASSY NOR VARIAN HAS ANY INFO-
RMATION.

9. VARIAN SAYS COMPANIES' HEELS STILL DUG IN, AS ARE NIOC'S. HE
THINKS IT LIKELY THAT IF NO SOLUTION REACHED, COMPANIES SIMPLY WILL
NOT MAKE MARCH 15 PAYMENTS ON BASIS DEMANDED BY NIOC, BUT WILL PAY
ABOUT 4 CENTS A BARREL LESS, AS IN KUWAIT FORMULA. QUESTIONS ARISE
AS TO WHAT SORT OF BLOW-UP THIS MAY CAUSE AND WHETHER USG SHOULD
DISCUSS THIS ISSUE WITH GOI.

10. ACTION REQUESTED: WE WOULD APPRECIATE ANY READING EMBASSY JIDDA
CAN PROVIDE ON SAG'S CURRENT THINKING ON MEANING OF DEC OPEC DEC-
ISION; IN PARTICULAR WE WONDER WHERE MINA GOT IDEA THAT SAG INTENDS,
BY WHATEVER FORMULA, TO CHARGE COMPANIES \$10.12 PLUS ACTUAL PROD-
UCTION COST FOR MARKER CRUDE.

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